



County of Los Angeles CHIEF EXECUTIVE OFFICE

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September 16, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

CITY OF HAWTHORNE REDEVELOPMENT PROJECT NO. 2 (SUPERVISORIAL DISTRICT 2) (3 VOTES)

SUBJECT

In 2002-03, the Community Redevelopment Agency of the City of Hawthorne ("Agency") collaborated with the County of Los Angeles, the City of El Segundo, and many others in redevelopment activities to avert closure of the Los Angeles Air Force Base (LAAFB). Required documents to formally establish the Hawthorne Agency's tax increment entitlement were not filed in a timely manner by the Agency's consultant with State taxing officials. As a result, the Agency could not receive \$2.86 million of tax increment in Fiscal Years (FY) 2006-07 and FY 2007-08 and has sued the consultant. It is recommended that the County loan the Agency \$1.42 million to support the Agency's LAAFB obligations pending resolution of the Agency's suit against the consultant, in accordance with terms and conditions proposed below.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Authorize the Chief Executive Officer to execute Amendment No. 2, prepared by County Counsel consistent with the accompanying terms and conditions, to the Agreement for Reimbursement of Tax Increment Funds (Agreement) of June 9, 1986 between the Community Redevelopment Agency of the City of Hawthorne, the City of Hawthorne, and the County of Los Angeles for the Hawthorne Redevelopment Project No. 2 in order to defer receipt of an amount of the County's pass-through tax increment equal to over realized General Fund and Flood Control Revenue in the Agency's Redevelopment Project No. 2.

"To Enrich Lives Through Effective And Caring Service"

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2. Authorize the Auditor-Controller to adjust contract revenues to reflect the transaction.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On August 26, 2003, your Board approved Amendment No. 1 to the June 9, 1986 tax sharing Agreement between the Community Redevelopment Agency of the City of Hawthorne ("Agency"), the City of Hawthorne, and the County of Los Angeles governing Hawthorne Redevelopment Project No. 2. The purpose of Amendment No. 1 was to support an effort to prevent closure of the LAAFB in the then-pending round of military base closures. This was part of a collaborative effort by the County, the cities of Hawthorne and El Segundo, and many interested parties.

The Agency had amended Project No. 2 on September 22, 2003 to add two discrete areas. One of these areas was traded to a developer, in return for the developer's commitment to provide replacement LAAFB facilities. The cost of replacement LAAFB facilities sited in the second area was greater than the value of the properties traded to the developer. Amendment No. 1 committed up to \$20 million of the County's statutory General Fund and Flood Control mitigation payments attributable to the Agency's Amendment area to assist the Agency to provide additional funding for the replacement LAAFB facilities.

To perfect its rights to receive tax increment from the project amendment, documents reflecting the adoption should have been filed with taxing authorities before December 1, 2003. This filing was not completed by an agent of the Agency. The Air Force did not transfer ownership until April 2006. The Agency did not receive tax increment in FY 2006-07 and did not detect that it was not receiving tax increment until the summer of 2007, when compliance for purposes of FY 2007-08 was no longer possible. Therefore, the Agency lost FY 2006-07 and FY 2007-08 tax increment. However as a result, Los Angeles County's General Fund and the Flood Control District received about \$1.4 million (including some of the mitigation payments mentioned above) that had been expected to be allocated as tax increment.

Under its subsisting Agreement for Reimbursement of Tax Increment Funds for the Hawthorne Redevelopment Project No. 2, the County receives reimbursement of much of its share of General Fund and Flood Control District portions of tax increment that would otherwise be paid to the Agency. Currently, those reimbursement amounts exceed the County Share of the Agency's FY 2006-07 and FY 2007-08 lost tax increment revenues for the amendment area.

It is proposed that Los Angeles County defer receipt of its Hawthorne Redevelopment Project No. 2 project contract revenues, in the amount of over-realized General Fund revenues and Flood Control District revenues. The Auditor-Controller would be authorized to make payments to equal the amounts of over realized revenue. The Agency's repayment obligation will depend on the success of its recovery lawsuit.

Implementation of Strategic Plan Goals

By supporting our partner in an initiative which protected a significant Los Angeles County economic and fiscal resource, this action supports Countywide Strategic Plan Fiscal Responsibility (Goal 4).

FISCAL IMPACT/FINANCING

There will be no negative fiscal impact, since the amount loaned to the Agency from the County's mitigation agreement revenues will be balanced by unanticipated amounts received by the General Fund and Flood Control District. Depending on the outcome of the Agency's lawsuit to recover both the County and non-County portion of its tax increment revenues, the County would share in the recovery.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Community Redevelopment Law ("CRL") confers extraordinary powers upon redevelopment agencies established by municipalities. Such powers include the right to divert property taxes which would otherwise be received by the County for periods ranging up to 50 years and more. Currently, a cumulative amount of about \$350 million annually is diverted from the County General Fund for city redevelopment. From time to time, municipalities, their redevelopment agencies, and/or consultants, run afoul of the sometimes complex requirements relating to the allocation of tax increment. Such errors may allow Los Angeles County and other taxing entities to incidentally receive revenues which would otherwise have been diverted to redevelopment agencies. In general, Los Angeles County holds redevelopment agencies to strict compliance with the legal requirements for claiming tax increment.

In the present instance, the Agency obligated itself to the gap funding which enabled the construction of the LAAFB replacement facility, a significant employment and economic resource to the County generally and the South Bay specifically.

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County Counsel will negotiate and prepare an amendment to the Hawthorne Redevelopment Project No. 2 Agreement in accordance with the terms and conditions addressed in Attachment A. Once agreed to by the Agency and Hawthorne, the Chief Executive Officer ("CEO") will execute it and authorize the Auditor-Controller, which administers the Agreement, to take the necessary action to provide funds to Hawthorne. The CEO will monitor the Agreement until all contingencies have been resolved.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There will be no impact on current services or projects.

CONCLUSION

As your Board was informed when this matter was originally considered in August 2003, the estimated annual tax receipts attributable to the LAAFB alone amount to about \$250 million, and the roughly \$8.5 billion of annual contract awards is a significant driver of the local economy. As reported in the May 10, 2008 Los Angeles Times, a single recent such award is "...expected to create 15,000 new jobs in a Southern California economy hammered by the housing downturn." In the absence of Hawthorne's significant cooperation and assistance in amending its project areas and supporting the cooperative effort to preserve the LAAFB, the Los Angeles County area might well have suffered a severe economic loss. In light of that cooperation, we believe your Board's support of Hawthorne in this manner is appropriate.

Respectfully submitted,



WILLIAM T FUJOKA
Chief Executive Officer

WTF:LS
DSP:RTM:os

Attachment (1)

c: County Counsel
Acting Director of Public Works

City of Hawthorne
Redevelopment Project Number 2

Amendment No. 2 Terms and Conditions

- Auditor-Controller will determine the amount of General Fund and Flood Control District revenues realized in Fiscal Years 2006-2007 and 2007-2008 from parcels contained within the "Area A and Area C Subset" as specified in the "First Amendment to Agreement for Reimbursement of Tax Increment Funds" adopted August 26, 2003 between the City of Hawthorne, the Community Redevelopment Agency of the City of Hawthorne ("Agency"), and the County of Los Angeles. This amount is referred to as the "Over-Realized Revenues Amount."
- Auditor-Controller will adjust contract revenues derived from tax sharing agreement between the parties for the Hawthorne Redevelopment Project No. 2 to defer receipt of revenues equal to the "Over-Realized Revenues Amount." This sum shall be known as the "Deferral Amount" and Auditor-Controller will be authorized to pay the amount to Agency.
- Agency agrees to diligently prosecute the claims made in its suit to recover damages caused by Agency's non-receipt of Fiscal Year 2006-2007 and 2007-2008 tax increment in the action entitled "*Community Redevelopment Agency of the City of Hawthorne, Plaintiff, v. Keyser Marston Associates Inc., et al., Defendants*," Los Angeles Superior Court Case No. BC 381362 ("the Recovery Action").
- County's recourse for repayment of the Deferral Amount, and Agency's Deferral Amount repayment obligation, shall be determined as follows:
 - 1) Auditor-Controller shall first determine the difference between the Deferral Amount paid to Agency, and the total amount of tax increment Agency would have received for Fiscal Years 2006-2007 and 2007-2008 from all taxing agencies net of pass-through payments Agency was required to make by contract or statute, had the Agency been entitled to be allocated tax increment for fiscal years 2006-2007 and 2007-2008.
 - 2) If the difference is zero or negative, County shall not be entitled to any recovery.

- 3) If the difference is positive, the County shall be entitled to recover an amount up to the Deferral Amount plus interest accrued on the Deferral Amount through the 30th day prior to the date of repayment.
- Assuming for the purposes of the following illustration that the amount of tax increment Agency would have received for Fiscal Years 2006-2007 and 2007-2008 from all taxing agencies was \$2.8 million, and that the Deferral Amount was \$1.4 million, the records of County under different recoveries are as follows:
 - 1) Recovery Amount: \$0 County recourse: \$0
 - 2) Recovery Amount: \$1.4 million County recourse: \$0
 - 3) Recovery Amount: \$3.0 million County recourse: \$1.4 million, plus accrued interest, but collectively not to exceed \$1.6 million.
 - The Deferral Amount shall, if permitted by Agency's recovery, be repaid with interest, compounded monthly, at the net operative annualized rate of interest earned on idle-fund accounts held by the County Treasurer ("County Pool Rate").
 - Agency shall commence repayment of the Deferral Amount and accrued interest within 90 days of a final resolution by judgment or settlement in the Recovery Action. Final resolution includes the time reasonably necessary to receive or collect any and all net damages or settlement proceeds due to Agency as a result of the Recovery Action after satisfaction of Agency's statutorily recoverable costs ("Recovery Amount").
 - Agency shall covenant that in making use of the Deferral Amount, it will fully comply with any and all obligations to undertake activities relating to the provision of affordable housing under the Community Redevelopment Law as may now or in the future exist, including but not limited to obligations to set aside funds. Agency agrees to hold County harmless from and against any claims, liability and/or damages arising from or relating to such Agency affordable housing obligations.
 - Auditor-Controller shall administer payment of the Deferral Amount to Agency and may correct any underpayment or overpayment as may occur by adjusting future payments to Agency under the Agreement. Auditor-Controller shall determine and adjust the total of the Deferral Amount from time to time to reflect any roll correction increase or reduction affecting the Fiscal Year 2006-2007 and Fiscal Year 2007-2008 rolls. Auditor-Controller may make and apply such adjustments in its regular monthly tax allocation payments.

- Auditor-Controller shall track the accrual of interest upon the Deferral Amount and shall provide to Agency upon Agency's reasonable request the total of principal and interest and its calculation methodology.
- The Chief Executive Office shall, with the assistance of Auditor-Controller, monitor and administer this Agreement on behalf of the County until all contingencies are resolved.